

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CEA-01 CIAE-00 COME-00 EB-07

FRB-03 INR-07 NSAE-00 CIEP-01 SP-02 STR-04 TRSE-00

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FM USMISSION EC BRUSSELS

TO SECSTATE WASHDC 9692

INFO ALL EC CAPITALS 1157

AMEMBASSY BERN

AMEMBASSY OSLO

AMEMBASSY STOCKHOLM

AMEMBASSY VIENNA

C O N F I D E N T I A L EC BRUSSELS 08948

E.O. 11652: ADS "DECLASSIFY ON JAN. 1, 1979"

TAGS: EFIN, EEC, SZ

SUBJECT: SWISS ASSOCIATION WITH THE SNAKE -- POLITICAL
TEMPERATURE IS RISING

REFS: A. EC BRUSSELS 8518

B. BERN 4107

C. BERN 3969

D. EC BRUSSELS 6442

1. SUMMARY: THE EC CENTRAL BANKERS WORKING GROUP MADE
LITTLE PROGRESS ON THE ISSUE OF SWISS ASSOCIATION WITH
THE SNAKE. THE SWISS BELIEVE THAT FRENCH RESISTANCE HAS
CAUSED SPECULATION AGAINST THE SF AND FURTHER GOF OBSTRUCTIONISM
WOULD ADVERSELY AFFECT FRANCO-SWISS RELATIONS. THE SWISS
ARE CONSIDERING AS AN ALTERNATIVE TO THE SNAKE BILATERAL
EXCHANGE RATE ARRANGEMENTS WITH THE FRG AND THE NETHERLANDS.
SHOULD IT ENTER THE SNAKE, SWITZERLAND IS PREPARED TO
PARTICIPATE IN SMOOTHING OUT EXCHANGE RATE MOVEMENTS
AGAINST THE DOLLAR. END SUMMARY.

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2. COMMISSION AND SWISS MISSION OFFICIALS HERE HAVE

COMMENTED TO US ON THE SEPT. 29-30 MEETING IN BASEL BETWEEN THE EC CENTRAL BANK WORKING GROUP -- THE HEYVAERT GROUP -- AND SWISS OFFICIALS, AT WHICH THERE WAS A DISCUSSION OF THE SHORT-TERM REQUIREMENTS FOR SWISS ASSOCIATION WITH THE EUROPEAN MONETARY SNAKE. OUR SOURCES DESCRIBED THE MEETING AS A REPETITION OF ISSUES THAT THE GROUP HAD DISCUSSED MONTHS AGO AND LITTLE REAL PROGRESS WAS MADE. THE FRENCH REPRESENTATIVES RAISED A NUMBER OF PROBLEMS WHICH INDICATED THE GOF WANTED TO DELAY A DECISION ON SWISS ENTRY WITHOUT ACTUALLY HAVING TO VETO IT. THE FRENCH FOCUSED ON REGULATION OF SWISS CAPITAL AND FOREIGN EXCHANGE MARKETS, ESPECIALLY THE NET FOREIGN EXCHANGE POSITION OF SWISS BANKS. SWISS OFFICIALS SAID THAT THE GOS HAD NO INTENTION OF INTRODUCING ADDITIONAL RESTRICTIVE MEASURES AT THIS TIME BECAUSE CURRENT GOS REQUIREMENTS WERE SUFFICIENT. THE FRENCH ALSO ASKED FOR ASSURANCES THAT THE GOS WAS PREPARED TO ADJUST ITS EXCHANGE RATE SHOULD THE SF APPRECIATE SHARPLY. NO AUTOMATIC ADJUSTMENT MECHANISM WAS PROPOSED. THE GOS IS PREPARED TO CONSULT WITH SNAKE MEMBERS SHOULD SPECULATION AGAINST THE SF OCCUR.

3. THE HEYVAERT GROUP WILL MEET AGAIN DURING THE WEEK OF OCTOBER 6 TO FINISH ITS REPORT FOR THE EC CENTRAL BANKERS COMMITTEE. THIS COMMITTEE WILL MEET AT THE DEPUTIES' LEVEL ON OCTOBER 14 AND AT THE GOVERNORS' LEVEL ON OCTOBER 15 AT BASEL TO CONSIDER THIS REPORT. THE COMMITTEE WILL LIKELY MEET ONCE AGAIN IN NOVEMBER BEFORE THE FINANCE MINISTERS TAKE UP SWISS ASSOCIATION ON NOVEMBER 17 (SEE REF A).

4. COMMISSION OFFICIALS EXPECT THE FRENCH TO DRAG OUT THE DISCUSSIONS SO AS TO PREVENT THE MINISTERS FROM REACHING A DECISION IN NOVEMBER. SWISS OFFICIALS HERE DO NOT AGREE. TOP GOS FINANCIAL OFFICIALS ARE DESCRIBED AS DETERMINED TO BRING THE ISSUE TO A HEAD IN NOVEMBER. FRANCE IS ISOLATED AND THE GOS WOULD CONSIDER CONTINUED FRENCH RESISTANCE AS ADVERSELY AFFECTING FRANCO-SWISS RELATIONS. THE GOS BELIEVES THAT IT HAS ALREADY MET

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THE GOF'S MAJOR DEMANDS. THE FAILURE TO REACH A FINAL DECISION IN SEPTEMBER CONTRIBUTED, THE GOS BELIEVES, TO RECENT ERRATIC MOVEMENTS OF THE SF. THE GOS HAS NOT APPRECIATED FRENCH OFFICIALS' STATEMENTS THAT THE SF IS A SPECULATIVE CURRENCY. FURTHER GOF OBSTRUCTION WOULD BE CONSIDERED A "GRAVE INCIDENT," ACCORDING TO GOS OFFICIALS HERE, BECAUSE IT COULD LEAD TO ADDITIONAL SPECULATION AGAINST THE SF. THE GOS, ESPECIALLY THE

SWISS NATIONAL BANK, IS NOW DETERMINED TO ENTER THE SNAKE.

5. THE GOS IS CONSIDERING RECOURSE TO SEPARATE EXCHANGE RATE ARRANGEMENTS WITH THE FRG AND THE NETHERLANDS SHOULD THERE BE NO PROSPECT OF REACHING A DECISION AFTER THE NOVEMBER MEETING. THE ARRANGEMENTS WOULD ESSENTIALLY HAVE THE SAME RULES AS THE SNAKE BUT WOULD BE ON A BILATERAL BASIS. THE FRENCH ARE AWARE OF THIS POSSIBILITY AND THE SWISS BELIEVE THEY WILL WANT TO AVOID IT BECUASE SEPARATE ARRANGEMENTS WOULD UNDERMINE THE COHESIVENESS OF THE SNAKE AND ITS ROLE AS AN EC MONETARY INSTRUMENT.

6. THE GOS IS ALSO REPORTEDLY PREPARED, IF ASKED, TO PARTICIPATE IN THE SMOOTHING OUT OF EUROPEAN EXCHANGE RATE MOVEMENTS AGAINST THE DOLLAR ONCE IT HAS JOINED THE SNAKE (SEE REF D). THE GOS HAS ALREADY INDICATED THAT IT IS PREPARED TO INTERVINE IN DOLLARS TO HELP STABILIZE EXCHANGE RATES WHEN NECESSARY. GREENWALD

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